



Office of Governmental Affairs
P.O. Box 942720
Sacramento, CA, 94229-2720
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3689, Fax (916) 795-3270

May 14, 2008

AGENDA ITEM 3a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Assembly Bill 1997 (Hayashi)—As Amended
April 3, 2008

CalPERS Annuitant Vision Care Program

Sponsor: Retired Public Employees Association (RPEA)

II. PROGRAM: Legislation

III. RECOMMENDATION: Support, if amended

This bill would allow annuitants (as defined under the CalPERS Health Benefits Program) of public agencies, school districts and universities contracting with CalPERS for retirement benefits to participate in the CalPERS Annuitant Vision Care Program.

The bill should be amended to: 1) clarify the Board's investment and administrative authority over the fund, 2) require an appropriation/funding source to cover start-up costs, and 3) allow for a programmed implementation date.

IV. ANALYSIS:

This bill would create the CalPERS Annuitant Vision Care Program Fund and establish, under the administration of the Board, a voluntary vision care program for local, school and university members and their dependents.

Background

CalPERS administers health benefits and long-term care insurance programs on behalf of its membership. The proposal of this bill is most similar to the structure of the Long-Term Care Program which utilizes a Third-Party Administrator to provide specific services to enrolled members.

CalPERS does not administer a vision care benefit for its members. The health plans providing services through CalPERS under the Public Employees' Medical and Hospital Act (PEMHCA) provide varying levels of vision care services which are usually linked to health related episodes. These benefits are only available to members whose agencies contract with CalPERS for health care and who then enroll in those health care offerings.

The vision care benefit provided by CalPERS' contracting Health Maintenance Organizations (HMOs) is available to all state and public agency employees, retirees, and their dependents. The HMO plans offer routine eye examinations and basic care, but do not include eyeglasses (lens and frames) and contract lens coverage, unless the eyeglasses are prescribed following cataract surgery.

CalPERS self-funded Preferred Provider Organization (PPO) basic plans only cover visits and consultations by an ophthalmologist for an active illness, vision eye exams following cataract surgery, or accidental injury. However, CalPERS self-funded PPO PERS Choice and PERSCare Medicare-Supplement plans do provide for a routine vision exam and lenses annually, and one set of frames per member each 24-month period.

As of February 2008, CalPERS retirement rolls included approximately 312,000 public agency and school retirees from the approximately 1,500 contracting agencies and 1,100 school districts. If the contracting agency or school district also contracts for CalPERS health benefits, then vision care would be available to the retiree and their dependents as outlined above.

Vision Service Plan Benefit Coverage for State Employees and Annuitants

DPA administers the State's Vision Program for active state employees, and as a result of Assembly Bill 2242 (Chapter 611, Torrico) administers the Vision Care Program for State Annuitants. Both programs are offered through the Vision Service Plan (VSP), a private, third-party vendor of vision care services. Enrollment is automatic for active employees and optional for retirees.

The Vision Care Program for State Annuitants is a voluntary program that is self-funded by annuitants. Out of roughly 130,000 eligible retirees over 40,000 members have enrolled in the Vision Care Program for State Annuitants. The Retiree Plan is an extension of the existing State Active Plan with VSP. At present, three full-time DPA employees are assigned to the oversight of the state annuitant program, plus some support from accounting services.

Vision Service Plan Benefit Coverage for California State University (CSU) Employees and Annuitants

CSU administers the California State University Employee Vision Care Program for active CSU employees. Enrollment is mandatory for active employees and qualified members and dependents.

CSU is in the process of implementing the terms of last year's SB 235 (Chapter 334, Negrete McLeod), which requires CSU to develop a separate vision care plan for CSU annuitants. This program is expected to launch later this year and extend from, and mirror, the program offered to CSU active employees.

Proposed Changes

This bill would establish a voluntary vision care program for annuitants and their dependants who have retired from a contracting agency, school district, or the University of California. The retiree must meet one of the two conditions:

- (1) The local member was enrolled in a health benefit plan, a dental care plan, or vision care plan at the time of separation for retirement, and retired within 120 days of the date of separation.
- (2) If the local member was not enrolled in a health benefit plan, a dental care plan, or vision care plan at the time of separation for retirement, but was eligible for enrollment as an employee at the time of separation for retirement, and retired within 120 days of the date of separation.

There is no requirement for eligibility or enrollment in a CalPERS health benefits plan prior to, or after, retirement by the individual.

This bill gives CalPERS the authority and responsibility to administer the program, and allows the Board to contract with one or more vision care plans, provided that the carrier or carriers have operated successfully in the area of vision care benefits for a reasonable period.

This bill provides, as the program administrator, CalPERS with full administrative authority over this program and associated funds. If the board determines that it is not economically feasible to continue this program anytime after its commencement, it may, upon written notice to enrollees and to the contracting plan or plans, terminate this program within a reasonable time. The monthly premium would be deducted from the members' monthly allowance, and would be established to provide complete funding for the program.

Legislative History

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| 2007 | Chapter 331, Statutes of 2007 (AB 1288, Hayashi) – Established the County Retirement System Vision Care Program to provide vision care benefits to retirees, and their dependents, of counties that operate their retirement systems under the County Employees' Retirement Law of 1937 (the '37 Act) that elect to offer the program. <i>CalPERS Position: No Position</i> |
| 2007 | Chapter 344, Statutes of 2007 (SB 235, Negrete McLeod) – Allowed annuitants of the California State University (CSU) system to participate in the newly created California State University Annuitant Vision Care Program for annuitants. This bill requires the Office of the Chancellor of the CSU to administer the program for all participating annuitants of the institution. <i>CalPERS Position: Support.</i> |

- 2006 Chapter 611 (AB 2242, Assembly PER&SS) – Established the Vision Care Program for State Annuitants to be administered by the Department of Personnel Administration, to be paid for by the participants of the Program.
CalPERS Position: Support
- 2005 SB 1091 (Maldonado) – Would have required CalPERS to provide vision care comparable to that provided for active employees to state annuitants that retire on or before July 1, 2006, and their dependents. The bill died.
CalPERS position: Support, if amended
- 2003 SB 461 (Burton) – Would have contained similar provisions as SB 1091. The bill died before the Board had an opportunity to take a position.

Issues

1. Arguments by Those in Support

According to the sponsor, "Vision care is an important, yet under appreciated preventive health care service. In 2006, the National Institute of Health estimated that over 11 million Americans had an uncorrected visual impairment. Vision loss is often accepted as a normal part of aging, but regular eye exams and conscious vision care can make a difference - not just in how well people can see, but in our overall health and quality of life. Regular eye exams can detect diseases, such as diabetes and hypertension, that otherwise go undiagnosed and untreated. As Californians live longer lives, maintaining good vision is an important part of staying active and independent."

Organizations in Support: Retired Public Employees Association (Sponsor); Organization of SMUD Employees; San Bernardino Public Employees Association; San Luis Obispo County Employees Association; Santa Rosa City Employees Association

2. Arguments by Those in Opposition

There is no known opposition at this time.

3. Benefit Improvement for Public Agency, Schools and University Annuitants

Currently, public agency and school annuitants are only able to receive vision care coverage through individual benefit negotiations with individual employers. If the member is enrolled in the CalPERS health program, they may receive some limited vision benefits through their HMO or PPO plan. The HMO plans only offer routine eye examinations and basic care, and do not include eyeglasses (lens and frames) and contact lens coverage, unless the eyeglasses are prescribed following cataract surgery. Only the self-funded PPO plans offer vision care benefits to annuitants that include eye examinations, eyeglass coverage, and contact lens coverage.

The VSP plan offers basic eye examination coverage in addition to providing for primary eye care coverage. This coverage includes a more comprehensive eye examination that allows doctors to detect eye conditions, such as cataracts, as well

as other health conditions (i.e. glaucoma and hypertension). This procedure is an important part of disease management. The VSP plan also offers eyeglass and contact lens coverage with a co-payment.

4. Lack of Comparable Program Experience

There is no comparable program operating within CalPERS to evaluate or model the soundness of this proposed benefit structure. The Long-term Care program is a CalPERS-owned insurance program managed by a Third-Party administrator, and is similar to this design. The product of Long-term care insurance (critical incident on-going care), however, is much different than the product of on-going vision care and support. Additionally, the Long-term Care program initial vendor absorbed a significant amount of startup costs which were later reimbursed.

The State Annuitant Program of the DPA is a contractual extension of the existing active employee vision plan, and so was established under circumstances much different from this proposal. The current premium for the State Annuitant program is approximately \$9 per month for a member and \$17 per month for a member and his or her spouse. The premium is negotiated to provide the best cost to the members, and can be renegotiated when the contract periods end. Because the program is still in its infancy, information has not yet been gleaned as to whether the program can sustain itself financially. There is also no data on potential changes in the rates vis-à-vis the growth of the pool, or any other projected costs.

The CSU Annuitant Vision Program is also a contractual extension of existing programs, and CSU is still in the process of implementing the terms of last year's SB 235 (Chapter 334, Negrete McLeod), so there is no enrollment or financial data that can be gleaned from its program.

5. Fund Management

This bill would establish the CalPERS Annuitant Vision Care Program Fund to be administered by the CalPERS Board of Administration. Although, the Board is granted full administrative authority over the Fund, there are other safeguards missing that are usually seen in provisions that establish funds for the Board's use. Staff recommends amendments that would clarify the Board has investment authority over the Fund and can pay administrative costs from the Fund.

6. Need to Create / Implement a New Program

Similar programs have recently been adopted by the DPA and the CSU for their annuitants; however, these programs are essentially extensions of existing programs for these employers' employees. This has provided significant savings in startup costs, as the vision vendor can simply transition existing administrative materials and support activities to the expanded coverage population. Since there is no comparable CalPERS program which can be expanded, a new program must be created.

Although the proposal indicates that the program will be self-funded, it is necessary to develop the program before offering it. Upon offer and enrollment, administrative

fees may be charged, generating a revenue stream to support the program. Until that time, other sources of revenue must be accessed to establish the program.

7. Costs / Funding Issues

Significant costs will be incurred by CalPERS in the implementation of this program, and CalPERS will require “seed” money to initiate it. Health Benefits administrative costs are obtained through state budget action through the Legislature, with impact to the state General Fund.

The DPA and CSU each have specified administrative budgets for activities which allow them to apply their overall resources more fluidly than CalPERS. Each of CalPERS’ Trusts is independent, and funds from one Trust may not be used to establish or subsidize any activities not contemplated under that Trust. In sum, there is no funding or revenue stream from which this program may be developed, other than a State General Fund appropriation which would later be reimbursed through the collection of administrative fees.

8. CalPERS System Support Capability

CalPERS is in the midst of various key system designs and reengineering efforts. Because of this, changes to key systems and operating interfaces would not be possible to accomplish prior to FY 2010. It is vital to the success of the Pension System Resumption (PSR) Project to keep changes to the existing systems to a minimum to reduce the possibility of adversely impacting the implementation of the new PSR solution, and facilitate the it’s success.

9. Legislative Policy Standards

The Board’s Legislative Policy Standards indicate a Support position on proposals which provide benefit improvements to retirees to recognize the unique needs of this group. AB 1997 would provide public agency and school annuitants a vision benefit opportunity equal to that of state and CSU annuitants, therefore staff recommends the board adopt a support, if amended position on AB 1997.

The bill should be amended to: 1) clarify the Board’s investment and administrative authority over the fund, 2) require an appropriation/funding source to cover start-up costs, and 3) allow for a programmed implementation date due to PSR.

V. STRATEGIC PLAN:

This is not a product of the CalPERS strategic plan, but an ongoing responsibility of the CalPERS Office of Governmental Affairs.

VI. RESULTS/COSTS:

This bill would allow annuitants (as defined under the CalPERS Health Benefits Program) of public agencies, school districts and universities contracting with CalPERS for retirement benefits to participate in the CalPERS Annuitant Vision Care Program.

Program Costs

This vision care program would be self-funded through administrative fees assessed on the premium. Based on the current premium for the State Annuitant program, it is anticipated that the participating members would pay approximately \$9 per month for a member and \$17 per month for a member and his or her spouse to sustain the program. This estimate may change once the Vision Care Plan for State Annuitants, administered by DPA, has a year's worth of experience to estimate future premiums.

Administrative Costs

To create an administrative benefit program as envisioned by this bill will require significant initial effort to ensure that all member's needs are met. CalPERS recognizes the need to design and field long standing value-added member benefit programs which do not require significant modification after implementation.

Although the costs for this program are expected to be borne by administrative fees charged for the service, significant costs will be incurred by CalPERS in the implementation and ongoing administration of this program. (This differs from the state retiree program and the CSU effort as they are extensions of existing programs. This bill proposes the creation of a new, independent benefit process with new contract affiliations and support requirements.) This requires CalPERS to obtain "seed" money or advance funding to initiate the program. Health Benefits Branch administrative costs are obtained through state budget action through the Legislature, with impact to the state General Fund.

If the selected vendor requires first-month premiums prior to coverage, it may be necessary to provide this substantial funding element, also.

It is difficult to scope the impact of such a support program, and cannot be fully-realized until the program and system are designed. However, with limited knowledge of the program needs, we estimate that startup costs (System requirements / design / implementation) could range from \$325,000 to \$500,000. Once the program is up and running, we anticipate the need for 4 staff positions to administer and maintain and audit the system side of the program for an ongoing personnel cost of \$280,000. Direct contact with members and liaison to the vision vendor would add to this cost.

These estimates include direct program administrative costs only and do not address any potential costs related to customer service responsibilities.

Wendy Notsinneh, Chief
Office of Governmental Affairs

Gloria Moore Andrews
Deputy Executive Officer - Operations

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch